

Message Text

UNCLASSIFIED

PAGE 01 BERN 01486 01 OF 02 071227Z

14

ACTION EB-07

INFO OCT-01 AF-06 EUR-12 IO-11 ISO-00 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 /110 W

----- 090767

R 061642Z APR 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2404

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS UNN

USDEL MTN GENEVA UNN

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 1486

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, ECON, SZ

SUBJECT: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF MARCH 28 -
APRIL 3

1. SUMMARY: LABOR PROBLEMS IN THE US CONTRIBUTED TO A DROP
IN THE DOLLAR AGAINST THE SF AND DM THIS WEEK. GOLD PRICES
ALSO FELL. THE COMMERCIAL BANKS PASSED THE END OF THE
QUARTER WITH NO LIQUIDITY PROBLEMS, AND THE CONFEDERATION'S
LATEST BOND ISSUE WAS OVERSUBSCRIBED. IN A RECENT SPEECH,
SWISS NATIONAL BANK VICE PREISDENT ALEXANDRE
HAY SAID THAT CHANGING ROLE OF THE IMF HAS REDUCED SWISS
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 01486 01 OF 02 071227Z

INTEREST IN BECOMING A MEMBER. THE GOS HAS PROPOSED A

TAX REFORM WHICH INCLUDES ADOPTION OF A 10 PERCENT VALUE ADDED TAX (VAT) BY THE END OF 1977. A NATIONAL REFERENDUM ON THE TAX PROPOSALS WILL BE HELD NEXT YEAR. BUILDING ACTIVITY AND RETAIL SALES BOTH DECLINED IN FEBRUARY.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: LABOR PROBLEMS IN THE US, RUMORS OF A DM REVALUATION AND CONTINUED WEAKNESS OF THE POUND STERLING ALL PUT DOWNWARD PRESSURE ON THE DOLLAR THIS WEEK. ALTHOUGH TRADING WAS RELATIVELY QUIET IN ZURICH, THE DOLLAR FLUCTUATED BETWEEN SF 2.52 AND SF 2.55. THE SF MOVED UPWARD WITH THE DM, AND THESE TWO CURRENCIES STAYED AT JUST ABOUT PARITY. THE GOLD MARKET WAS MORE ACTIVE THAN FOREIGN EXCHANGE, AND PRICES FELL ALMOST 2 PERCENT IN ANTICIPATION OF IMF GOLD SALES. RATES AS FOLLOWS:

	3/26(OPEN)	4/2(CLOSE)
SPOT DOLLAR	SF 2.5525	SF 2.5370
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	-4.0	-4.0
2 MONTHS	-3.9	-4.2
3 MONTHS	-4.1	-4.2
6 MONTHS	-4.0	-4.1
12 MONTHS	-3.7	-3.8
SF/DM	SF 99.94	SF 99.88
GOLD	\$ 131.25	\$ 128.75

3. MONEY AND CAPITAL MARKETS: THE HIGH LIQUIDITY AVAILABLE IN THE SWISS MONEY MARKET AND GENEROUS ASSISTANCE BY THE SNB ALLOWED THE COMMERCIAL BANKS TO PASS THE END OF THE QUARTER WITH NO PROBLEMS. THE SNB OFFERED THE BANKS UNLIMITED SHORT-TERM DOLLAR SWAPS AT THE END OF MARCH. THE SWAPS TOTALLED ALMOST SF 2.5 BILLION; DISCOUNTS AND OTHER CREDITS BROUGHT THE SNB'S TOTAL ASSISTANCE TO OVER SF 4.5 BILLION. CALL MONEY ON APRIL 2 WAS 0.25 PERCENT. STOCK PRICES EASED DOWNWARD AND THE SKA INDEX DROPPED FROM 208.5 (END 1959 EQUALS 100) ON MARCH 26 TO 206.0 ON APRIL 2. THE CONFEDERATION BOND ISSUE OF SF 500 MILLION WAS OVER-UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 01486 01 OF 02 071227Z

SUBSCRIBED WITH A COUPON OF 5.25 PERCENT. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS WAS 5.16 PERCENT ON APRIL 2, UP SLIGHTLY FROM 5.14 PERCENT A WEEK EARLIER.

4. SWITZERLAND AND THE IMF: SPEAKING BEFORE THE SWISS ASSOCIATION FOR THE UN, FORMER SNB VICE-PRESIDENT ALEXANDRE HAY SAID SWITZERLAND HAD NOT JOINED THE IMF BECAUSE OF THE CHANGING ROLE OF THAT INSTITUTION AND THE GROWING

IMPORTANCE OF OTHER INTERNATIONAL ORGANIZATIONS. HAY TOLD HIS AUDIENCE THAT BEGINNING WITH THE US DECISION TO SUSPEND CONVERTABILITY OF THE DOLLAR THE IMF STARTED TO LOSE ITS REGULATORY FUNCTION IN INTERNATIONAL MONETARY MATTERS. WITH THE DECISION REACHED LAST JANUARY IN JAMAICA, THE IMF BEGAN TO PLAY THE ROLE OF "GOOD SAMARITAN" TO COUNTRIES WITH BALANCE OF PAYMENTS PROBLEMS. THESE CHANGES REDUCED SWISS INTEREST IN BECOMING MEMBERS. IN ADDITION, THE INCREASING IMPORTANCE OF THE BANK FOR INTERNATIONAL SETTLEMENTS AND THE OECD IN MONETARY AFFAIRS FURTHER REDUCED SWISS INTEREST IN THE IMF SINCE SWITZERLAND WAS ALREADY A MEMBER OF THESE ORGANIZATIONS. IN CLOSING HAY SAID THAT THERE WILL BE NO STABLE INTERNATIONAL MONETARY SYSTEM UNTIL INDIVIDUAL COUNTRIES ACHIEVE INTERNAL ECONOMIC DISCIPLINE.

5. TAX REFORM: THE FEDERAL COUNCIL HAS MADE PUBLIC ITS PROPOSALS FOR REVAMPING THE FEDERAL TAX SYSTEM. THE NEW TAX PROGRAM PROVIDES FOR THE INTRODUCTION OF A VALUE ADDED TAX (VAT) TO REPLACE THE CURRENT TURNOVER TAXES AND A REDUCTION IN INCOME TAXES FOR LOWER AND MIDDLE-INCOME BRACKETS. IF APPROVED BY SWISS VOTERS IN A NATIONAL REFERENDUM PLANNED FOR NEXT YEAR, THE VAT, WITH A BASIC RATE OF 10 PERCENT AND A REDUCED RATE OF 3 PERCENT FOR FOOD AND OTHER ESSENTIALS, IS EXPECTED TO YIELD

UNCLASSIFIED

NNN

UNCLASSIFIED POSS DUPE

PAGE 01 BERN 01486 02 OF 02 070920Z

14

ACTION EB-07

INFO OCT-01 AF-06 EUR-12 IO-11 ISO-00 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 /110 W

----- 088669

R 061642Z APR 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2405

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS
AMEMBASSY PRETORIA
AMEMBASSY ROME
USMISSION GENEVA
USMISSION EC BRUSSELS
USMISSION OECD PARIS UNN
USDEL MTN GENEVA UNN
AMCONSUL ZURICH

UNCLAS SECTION 2 OF 2 BERN 1486

PASS TREASURY AND FRB

ABOUT SF 3.4 MILLION PER YEAR MORE THAN THE TURNOVER TAXES
NOW IN FORCE. THE MORE COMPREHENSIVE VAT WOULD ALMOST
DOUBLE THE PRESENT SALES TAX BURDEN. THE PROPOSED RE-
VISION OF THE FEDERAL INCOME TAX WOULD EXEMPT ANNUAL INCOMES
OF LESS THAN SF 25,000 (\$9,800) WHILE INCREASING THE MAXI-
MUM RATES FOR PERSONAL INCOMES OVER SF 200,000 (\$78,700)
AND FOR CORPORATIONS. THE NET RESULTS OF THESE INCOME TAX
CHANGES WOULD BE AN ANNUAL REVENUE LOSS OF ABOUT SF 400
MILLION (\$157 MILLION). IN A PRESS CONFERENCE, FINANCE
MINISTER CHEVALLAZ SAID THE PROPOSED TAX REVISIONS ARE
NEEDED TO AVOID AN EXCESSIVE GROWTH OF BUDGET DEFICITS.
WITHOUT ADDITIONAL REVENUES, THE CONFEDERATION'S 1979
UNCLASSIFIED
UNCLASSIFIED

PAGE 02 BERN 01486 02 OF 02 070920Z

DEFICIT WOULD REACH SF 3 TO SF 4 BILLION (\$1.2 TO \$1.6
BILLION), OR 15 TO 20 PERCENT OF EXPENDITURES. WITH NET
YIELD OF ABOUT SF 3 BILLION FROM THE TAX REFORM AND TIGHTER
CONTROL OF GOVERNMENT SPENDING, MINISTER CHEVALLAZ BE-
LIEVES THE BUDGET COULD BE CLOSE TO BALANCE IN 1979.

6. SNB STATEMENT OF ACCOUNT FOR MARCH: THE MAJOR MONTHLY
CHANGES IN SNB'S STATEMENT OF ACCOUNT SHOWN BELOW
ARE DUE TO THE END-OF-QUARTER ASSISTANCE PROVIDED TO THE
COMMERCIAL BANKS. THE VERY LIQUID STATE OF THE BANKING
SYSTEM IS SHOWN BY THE HIGH LEVEL OF GIRO ACCOUNTS (COM-
MERCIAL BANK CLEARING ACCOUNTS WITH THE SNB) WHICH ARE
ABOUT 16 PERCENT HIGHER THAN THEY WERE AT THE END OF
MARCH LAST YEAR.

MARCH 31 CHANGE FROM FEB. 27
(MILLIONS OF SWISS FRANCS)

ASSETS

GOLD	11,893	--	
F/X	13,519	UP	2,464
ROOSA BONDS	5,403	--	
DISCOUNTED PAPER	610	UP	354
LOMBARD LOANS	530	UP	253
OTHER	1,115	UP	357

LIABILITIES

NOTES IN CIRCULATION	17,781	DOWN	175
GIRO ACCOUNTS	10,073	UP	4,093
RESERVES(FOREIGN LIABLS)	205	UP	10
OTHER	5,011	DOWN	500
BALANCE SHEET TOTALS	33,070	UP	3,428

ECONOMIC

7. CONSTRUCTION BUSINESS: FEBRUARY STATISTICS ON THE BUILDING INDUSTRY SHOW A CONTINUED DECLINE IN ACTIVITY. THE NUMBER OF NEW RESIDENTIAL UNITS COMPLETED THIS FEBRUARY WAS 53.6 PERCENT BELOW THE LEVEL OF LAST FEBRUARY. THE NUMBER OF NEW RESIDENTIAL BUILDING PERMITS ISSUED WAS 34.5 LESS THAN IN FEBRUARY 1975.

8. RETAIL TRADE: RETAIL SALES IN FEBRUARY WERE DOWN 4.3 PERCENT IN VALUE AND 5.2 PERCENT IN VOLUME FROM THE UNCLASSIFIED UNCLASSIFIED

PAGE 03 BERN 01486 02 OF 02 070920Z

PREVIOUS FEBRUARY.
DAVIS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL PROGRAMS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BERN01486
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760131-0152
From: BERN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760494/aaaadcrk.tel
Line Count: 247
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: blochd0
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUN 2004 by SilvaL0>; APPROVED <27 JAN 2005 by blochd0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF MARCH 28 - APRIL 3
TAGS: EFIN, ECON, SZ
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006